PHILIP OPHER

Ph. D. (Economics)

Executive Registry
82-1844

STAT

Honorable William J. Casey
c/o
Rogers and Wells
New York, N.Y.

July 6, 1982

Dear Mr. Casey,

Re: The Middle Eastern Railroad, linking Africa, Asia and Europe via Egypt, Israel and Lebanon

You will recall I hope the meetings we had in 1975 and thereafter, at Exim Bank and Rogers and Wells, in regard to the topic above. The outlook for that project looked great until the civil war in Lebanon threw it into the file. (For your recollection please see attached a copy of a letter from Hon. Maxwell Rabb written in 1975).

The present events in Lebanon may signal the opening of a new leaf in the life of that region. Perhaps it is not necessary to await for the guns to fall silent in order to bring to the minds of the region's leaders the opportunities which peace will offer to their peoples.

My interest is to follow your train of thought during the days of your chairmanship of Exim Bank, and to personally contribute to the following:

a. U.S. government encouragement and seed funds in the form of a feasibility study;
b. The formation of an international consortium under the leadership of U.S. companies and with the cooperation of the countries in the Middle East.

Your advice and forwarding of this project to President Reagan and your colleagues in the Administration will be much appreciated. The leadership of a personality of your stature will help move it from paper into being.

Awaiting your reply I remain

Yours truly,
Philip Opher
Philip Opher

Encl.
PO:ti

STAT

P312

Mr. Casey, This is only for background.

THE NEW YORK TIMES, SUNDAY, MARCH 1, 1981

OPEC and Inflation

By Philip Opher

To my astonishment, I have just discovered that since 1972 the increase in the price of imported oil has had little impact on inflation in the United States. It represents only one-eighteenth of the inflation during the entire period, or less than 0.5 percent of the 8 percent average yearly inflation.

Even this 0.5 percent figure is overstated, because it reflects a race between two distinct causes of inflation — the prices of imported oil and various domestic pressures. Without the stimuli of domestic causes of inflation, the price increase in the economy resulting from imported oil would have averaged 0.3 percent yearly.

These data become less surprising when we realize that since 1972 the United States has utilized $16.2 trillion of goods and services worth $11.6 trillion in 1972 constant prices, of which all the imported oil has cost $313 billion, worth $84 billion in 1972 constant prices.

For some time, I researched statistical reports of the Departments of Commerce and Energy, and those of the American Petroleum Institute, the oil industry's principal trade association. Their data and my method of inquiry merged into more than 50 charts of findings.

The first finding is that, in the United States' adjusted gross national product — the annual "basket" of goods and services utilized, incorporating the G.N.P. plus imports but minus exports — imported oil is a small, albeit increasing, item: In 1972, it constituted one two-hundred-and-seventy-fourth of the basket; in 1980, the same quantity of oil as in 1972 constituted one-thirty-seventh of the basket (the actual quantity of oil imported in 1980 constitued one thirty-first of the basket).

The second finding is that, because of the light weight of imported oil in the adjusted G.N.P., the spectacular price increase of imported oil has failed to produce a major inflationary impact. That comes to light through the 1972-80 cumulative inflationary overcharge — that is, the difference between amounts of the same economic activity expressed in current as against constant 1972 prices. The imported-oil overcharge is only one-eighteenth of the adjusted G.N.P. overcharge.

This assessment, however, averages out the present as against the past. To pinpoint change, I undertook a year-by-year review. This resulted in the third finding — that inflation from sources other than imported oil has developed an independent momentum.

The years of the highest inflationary impact from imported oil were 1974 and perhaps 1980. In each, the inflation rate caused by imported oil was 1.4 percent or less, while the overall inflation rate was 11 percent. In other years of the 1972-80 period, the inflationary impact of imported oil was much smaller. As a result, the average yearly inflation caused by imported oil is below 0.5 percent out of 8 percent overall. Moreover, 1975 and 1978, years when imported oil caused no inflation, were overall quite inflationary.

My fourth finding is that the foreign oil producers and America have played inflation against each other. Since 1972, foreign oil suppliers have increased prices more than tenfold, partly on the ground that the value of the dollar has halved. If the dollar's purchasing power were to remain constant except for adjustments with respect to the price of imported oil, arguably the price of imported oil would have increased only 5.5 times, which means 0.3 percent yearly in United States inflation.

Additional indirect inflation is caused by the increase in the price of domestic items containing imported oil, and by extra costs in handling more-expensive imported oil.

Lately, accounting procedures have shifted somewhat from the "mark-up" method, by which the cost increase of an item is automatically escalated during its further handling. Under the emerging "pass-through" method, a price increase filters into the economy with only genuinely induced extra costs. Extra interest increases the basic cost of imported oil by perhaps one-tenth.

I did not deal with the fact that the Organization of Petroleum Exporting Countries is the initiator of current United States inflation by the power of its example. Yes, it has corrupted untold numbers of other suppliers, brought uncertainty and shifts to our economy, discouraged our production and productivity. But all these are moral sins, which in a country of law and order cannot be prosecuted.

I'm sorry to put an end to an opportunity of throwing responsibility for our problems on the shoulders of the out-of-reach OPEC. No doubt this feeling is matched by OPEC's frustration that it did not harm the United States as it wanted to do. Overseas oil suppliers must realize that a straw cannot break a camel's back.

Philip Opher is an economist who heads his own consulting firm. He is executive vice president of the American-Israel Chamber of Commerce and a member of the Commerce Department's New York District Export Council, an advisory group.

PHILIP OPHER

Ph. D. (Economics)

STAT

Proposal

first presented in 1975

regarding

RE-OPENING OF THE MIDDLE EASTERN RAILWAY

which before the World War II linked
Europe, Asia and Africa

through the present-day territories of
Egypt, Israel, Lebanon and Syria

July 7, 1982

STAT